



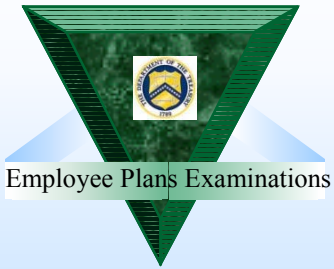
TE/GE

Tax Exempt and
Government Entities

Employee Plans Examinations

Preston R. Butcher

Director

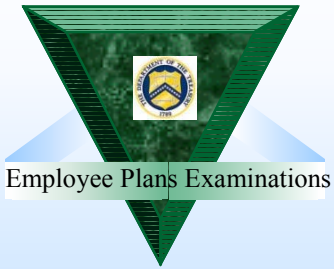


Customer Service

General Chief Complaint

Bad 

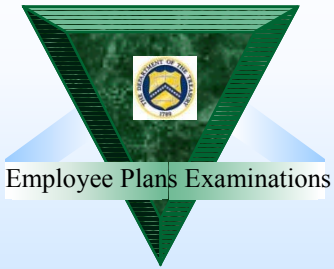
Customer Service



Customer Service

In EP Examinations:

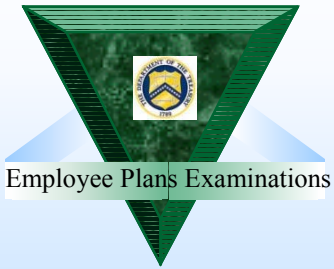
Service
is an
EXPECTATION!



Customer Service

EP Examinations Approach:

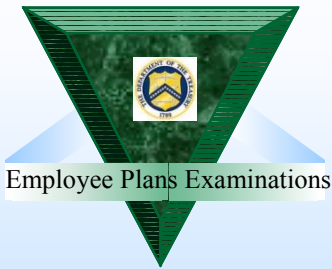
- ★ Identify customers
- ★ Talk to customers
- ★ Promote customer service
- ★ Encourage feedback



Customer Service

EP's Up-Front Approach:

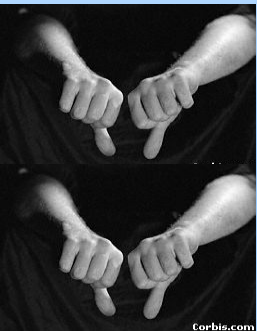
- ★ Education
- ★ Alternative treatments
- ★ Correction and sanction programs
- ★ Information reporting
- ★ Enforcement



Customer Service

Customer Satisfaction Data

CRITERIA



Explanation of Taxpayer's Rights



Explanation of EP Exam Process



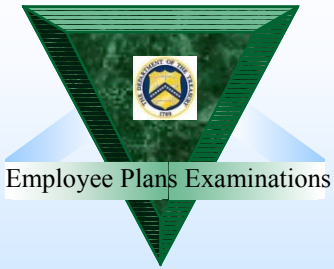
Courtesy of IRS Specialist



Professionalism of IRS Specialist



Knowledge of IRS Specialist



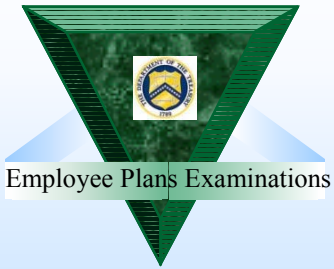
Customer Service

Customer Satisfaction Data

CRITERIA

- ★ Showing the Right Attitude
- ★ Explanation of Records Required
- ★ Time Given You to Respond to IRS
- ★ Consideration Given to Material
- ★ Listening to Your Concerns





Customer Service

Customer Satisfaction Data

CRITERIA



Length of the Process



Amount of Time Spent on This Issue



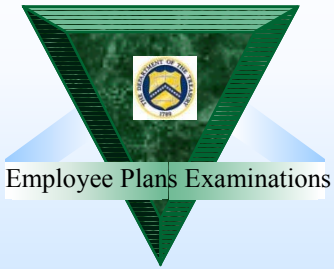
Ease of Understanding Letter/Report



Explanation of Adjustments Made



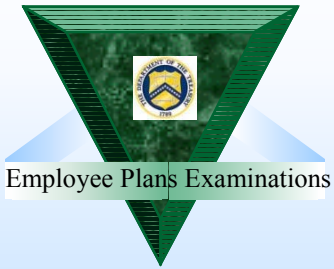
Fairness of Treatment by the IRS



Customer Service

EP Exams Customer Process Enhancements:

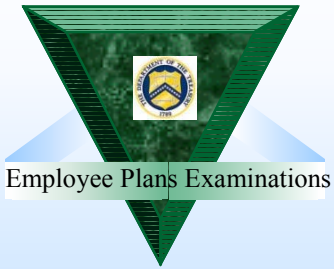
- ★ EP Specific Pub. 1
- ★ Friendlier Initial Contact Letter
- ★ Issue/Plan Specific IDRS
- ★ Limit Scope of Audit
- ★ Voluntary Compliance Strategies



Customer Service

EP Exams Customer Process Enhancements:

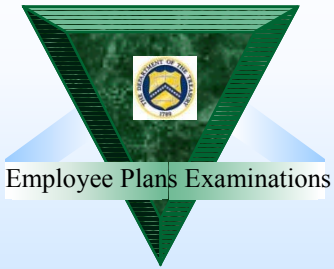
- ★ Alternative Compliance Treatments
- ★ Clearly Defined Customer Segments
- ★ Audit Schedule Agreement
- ★ Training of EP Agents
- ★ Communicate During Audit Delays



Customer Service

EP Exams Customer Process Enhancements:

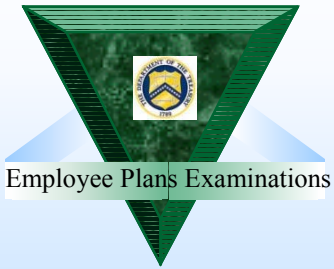
- ★ Examination Presence
- ★ Agent Communication Skills



Examination Program Scope

Over the last 3 years:

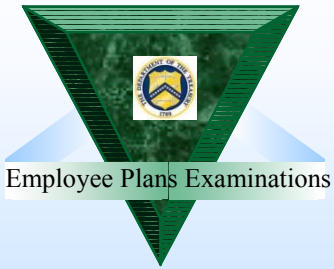
- ★ Closed over **20,000** Examinations
- ★ Another 6,000 in Process
 - Large Case Support (CEP)
 - Referrals
 - Reported Funding Deficiencies
 - Multi-Employer Plans
 - IRC 403(b) Plans



Examination Program Scope

Eight Criteria for a Quality EP Examination

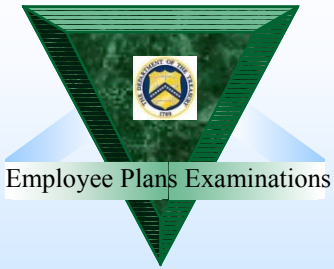
- ★ Examination Planning
- ★ Examination Scope
- ★ Documents/Operational Compliance
- ★ Examination Techniques



Examination Program Scope

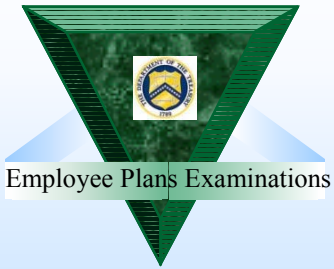
Eight Criteria for a Quality EP Examination

- ★ Workpapers/Reports
- ★ Application of Law/Tax Determination
- ★ Timeliness
- ★ Customer Relations/Professionalism



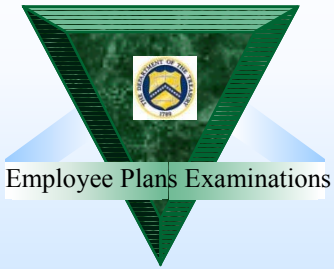
Past Program Trends and Issues

- ★ ADP/ACP Failures
- ★ Non-Amenders
- ★ Not Following Plan Terms
- ★ Incorrect Allocations
- ★ Top Heavy Violations
- ★ Early Admission of Ineligible Employee(s)



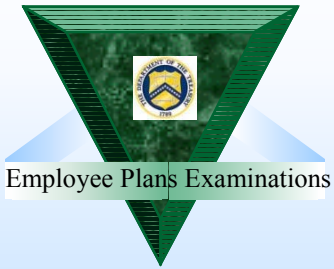
Past Program Trends and Issues

- ★ Failure to Timely Admit Eligible Employees
- ★ IRC 72(t) Issues
- ★ Prohibited Transactions
- ★ Minimum Funding Violations



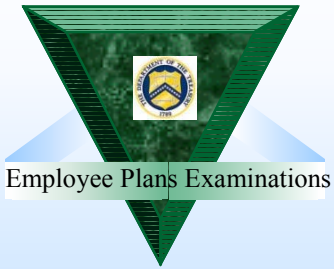
Top 5 Items That Triggered an Audit

- ★ Large Number of Separated Participants with Less Than 100% Vesting
- ★ Large Percentage of Assets Classified as “Other Assets”
- ★ Large Distributions on Income Statement



Top 5 Items That Triggered an Audit

- ★ Top-Heavy 401(k) Plans
- ★ Top-Heavy Plans Covering Self-Employed Individuals

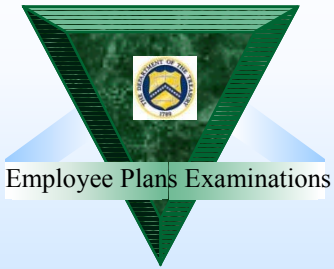


The Future – Customer/ Market Segmentation



Essential Steps

- Specialty Groups w/ Enhanced Training
- Limiting Scope of Examinations
- Reduce Cycle Time

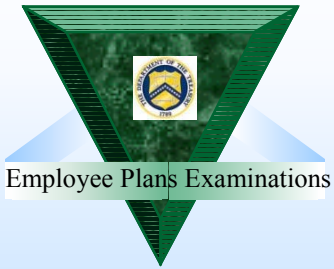


The Future – Customer/ Market Segmentation



Essential Steps

- Develop Sanction/Correction Programs
- Develop Audit Guidelines
- Risk Assessment Methodology



Risk Assessment Methodology



Data Driven

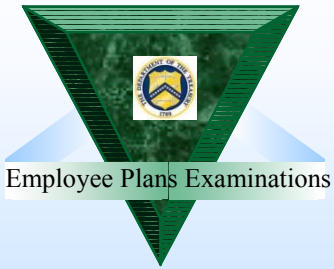
- Eight years of closing data and audit reports

- 19 industry/business codes

- 10 plan types



A total of 190 potential market segments

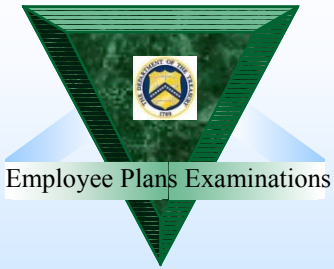


Risk Assessment Methodology



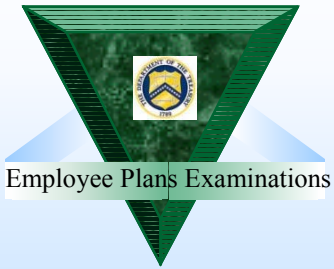
Data assessed as to

- Risk (history)
- Reliability (significance of data)



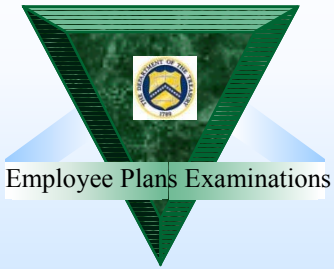
Risk Assessment Methodology

- ★ **2002** Started Research Initiatives
(Profit Sharing Plans)
 - Finance and Insurance
 - Science/Technology
 - Construction
 - Health Care & Social Assistance



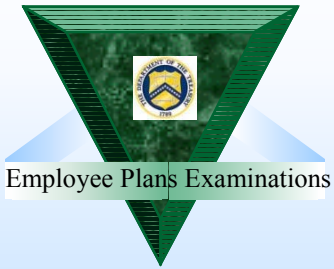
Risk Assessment Methodology

- ★ **2003** Started Research Initiatives
(Defined Benefit Plans)
 - Manufacturing
 - Health Care & Social Assistance



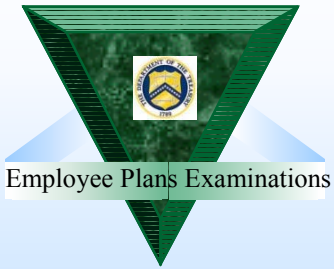
Risk Assessment Methodology

- ★ **2003** Started Research Initiatives
(Money Purchase Plans)
 - Professional
 - Health Care & Social Assistance
 - Science/Technology
 - Construction



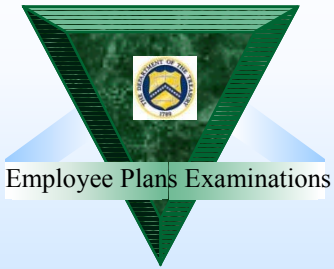
Risk Assessment Methodology

- ★ **2003** Started Research Initiatives
(401(k) Plans)
 - Manufacturing
 - Wholesale



Risk Assessment Methodology

- ★ **2003 Started Research Initiatives
(Profit Sharing Plans)**
 - Manufacturing
 - Wholesale

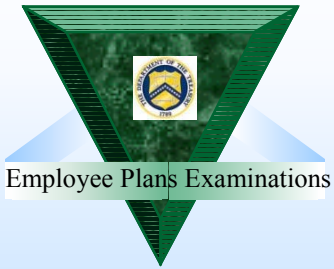


The Future – Customer/ Market Segmentation



Current Initiatives – Multi-Employer

- Adequacy of Books and Records
- Funding
- Late Amenders
- Failure to Force Repayment of Participant Loans
- Who Pays Sanction?

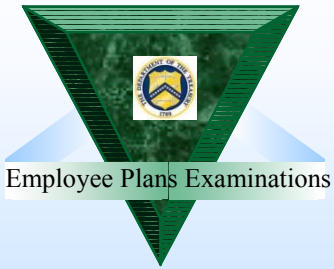


The Future – Customer/ Market Segmentation



Current Initiatives – IRC 403(b)/457

- Universal Availability
- Limitation Problems
- Examinations of 457 Features
(Substantial risk of Forfeiture)

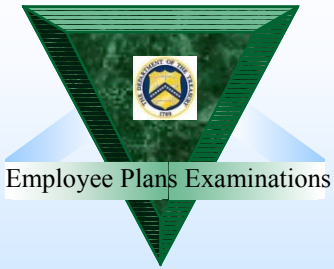


The Future – Customer/ Market Segmentation



Current Initiatives – 401(k) Plans

- Controlled Group
- Potential for Industry Analysis
- Improperly Excluded/Included Employees
- Correctness of Contributions and Allocations

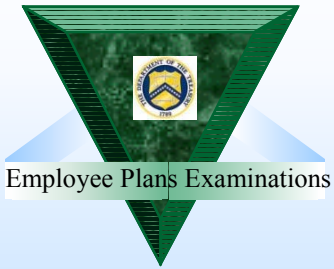


The Future – Customer/ Market Segmentation



Current Initiatives – 401(k) Plans

- Testing Errors
- Vesting Errors
- Failure to Follow Plan Terms

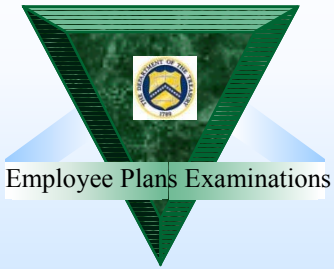


The Future – Customer/ Market Segmentation



Current Initiatives – EPTA

- Three Pilot Groups (adding 4th)
- Team Audit Approach
- Identification and Selection Criteria

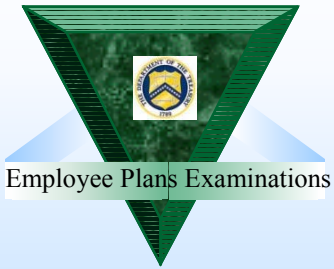


The Future – Customer/ Market Segmentation



Potential Customer/Market Segments

- SEP/SARSEP Adopters
- Third Party Administrators
- Mergers and Acquisitions
- Non-Filers (Joint IRS-DOL Program)

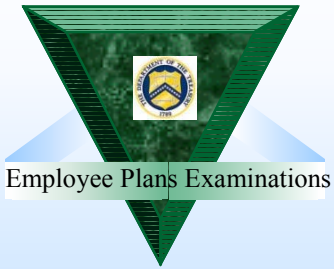


Non-Filers (Joint IRS-DOL Program)



Background

- 10-7-02 Joint DOL-IRS Notice
- Impact on DOL DFVCP Program
- 3 Compliance Check Samples

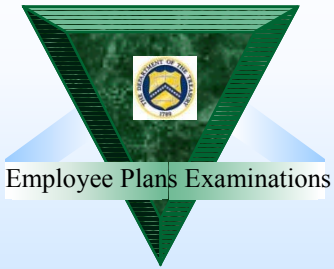


The Future – Customer/ Market Segmentation



Potential Customer/Market Segments

- Globalization
- Standardized Plan Adopters
- Terminations
- Mergers/Consolidations
- Abusive Tax Promotions Involving Pension Plans

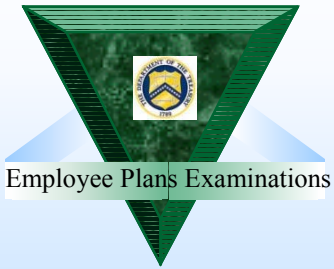


Abusive Tax Schemes

★ Definition

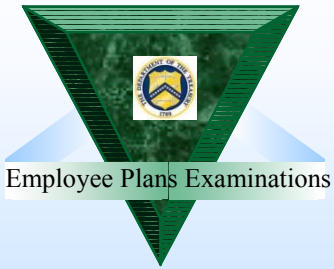
- A plan created to obtain tax benefits not allowable by law.





Abusive Tax Schemes

- ★ Three common characteristics of Abusive Tax Promotions
 - promote large deductions
 - diversion of income through pass-thru entity to qualified plan that benefits few employees
 - promise tax-free distributions

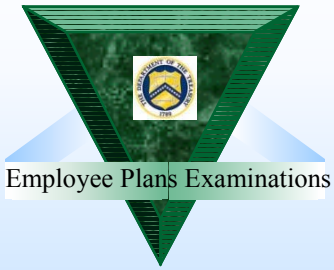


Abusive Tax Schemes

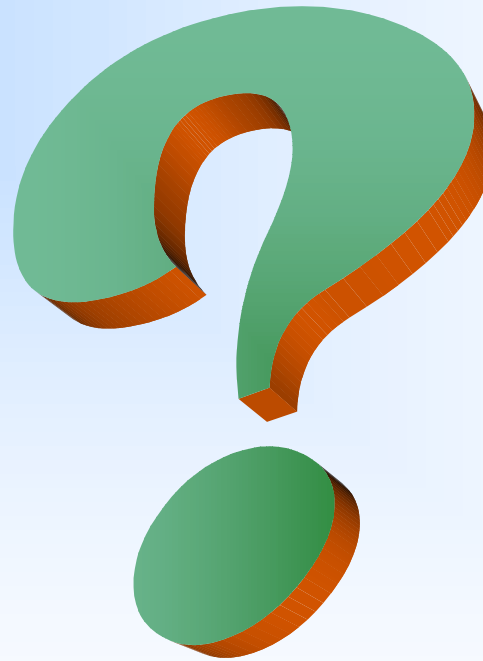
★ Potential Benefit Abusive Schemes

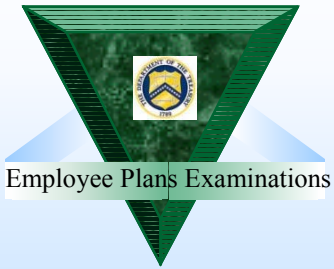
(NOTE: Abusive promotions may exist within the following structures):

- **ESOP S-Corps & Management Corps**
- **IRC 419 (A)(f) - Funded Welfare Plans**
- **IRC 412(i) – Springing Cash Value Life Insurance Arrangements**
- **IRC 401(k) – Accelerated Deduction Issues**



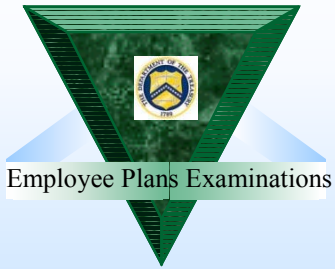
How Can You Help?





How Can You Help?

- ★ Share Your Newsletters, Websites, etc. with Us
- ★ Assist Us in Enhancing our Training
- ★ Feedback Through TE/GE Channels
- ★ Partner with Us in Outreach Initiatives



Feedback Method



E-mail

RetirementPlanComments@irs.gov

(Include your phone number in your e-mail message)